VZCZCXRO6387
PP RUEHTRO
DE RUEHAS #0316/01 0911327
ZNY CCCCC ZZH
P 011327Z APR 09
FM AMEMBASSY ALGIERS
TO RUEHC/SECSTATE WASHDC PRIORITY 7267
INFO RUEHBP/AMEMBASSY BAMAKO 0930
RUEHEG/AMEMBASSY CAIRO 1195
RUEHMD/AMEMBASSY MADRID 9219
RUEHNJ/AMEMBASSY NDJAMENA 0092
RUEHNK/AMEMBASSY NOUAKCHOTT 6717
RUEHFR/AMEMBASSY PARIS 3095
RUEHRB/AMEMBASSY RABAT 2723
RUEHTRO/AMEMBASSY TRIPOLI
RUEHTU/AMEMBASSY TUNIS 7587
RUEHCL/AMCONSUL CASABLANCA 3655
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000316

SIPDIS

E.O. 12958: DECL: 03/24/2018
TAGS: EINV ETRD ECON PGOV AG
SUBJECT: ALGERIAN BUSINESS BULLISH ON FOREIGN INVESTMENT
LIMITS

REF: A. ALGIERS 273
¶B. ALGIERS 30
¶C. 08 ALGIERS 1003

Classified By: Deputy Chief of Mission Thomas F. Daughton;
reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Algerian business leaders welcome new rules requiring a majority Algerian partner for all foreign investments in the country (ref A). They see the rules not as a retreat from capitalism and economic liberalization, but rather as a new economic model reflecting Algeria's unique history, current state of development, and goals for the future. Government officials, who often refer to the new policies as a "small pause" in what they consider to have been a period of unfettered and loosely-regulated foreign investment in recent years, draw parallels between Algeria's new investment policies and interventionist measures currently being employed by Western nations to deal with the global economic recession. Algerian business leaders, who have felt squeezed out of their own markets during the recent period of economic liberalization, view the new rules as a leveling of the playing field and an opportunity to partner with foreign firms to gain access to new technologies and methods. They see no inconsistency between their claims to be modern capitalists and their support for what are essentially traditional import-substitution policies. END SUMMARY.

THE PARTY LINE AND THE "PETITE PAUSE"

¶2. (C) New investment rules announced by Prime Minister Ahmed Ouyahia on December 22 require a majority Algerian stake in all new foreign investments made in Algeria (ref A). Ministry of Commerce WTO negotiators Brahim Moudjahed and Abdelouahab Melili told us on March 16 that the prime minister's rules, like the recent ban on pharmaceutical imports (ref B), were not necessarily inconsistent with Algeria's bid to join the WTO, but were components of a new industrial development strategy. "You have to understand that we can only go so far in negotiations, and need to protect the interests of the Algerian people," Moudjahed said.

¶3. (C) Nadir Larbaoui, Director of the MFA's Office of Economic and Financial Affairs, told us on March 14 that the new rules do not signal a retreat from capitalism per se but rather a "small pause" in what Larbaoui described as a foreign investment climate that had become too permissive to

foreign companies in recent years. Larbaoui repeated the mantra told to Department of Commerce Director General Israel Hernandez in September 2008 that the rules will be temporary -- a claim that seems inconsistent with the goal of expanding both Algeria's industrial production and an Algerian investor class (ref A). He stressed that foreign companies should not worry because "Algeria remains open" to investment.

OLD BOY NETWORK SUPPORTS A POLICY "CORRECTION"

¶4. (C) The president of the politically-connected business group Forum des Chefs d'Entreprises (FCE), Reda Hamiani, told us on March 16 that Ouyahia's investment rules represent a "new investment theory" for Algeria, and are meant to "correct" inequities that developed in the recent years of economic liberalization. Hamiani, on behalf of FCE, spoke publicly in favor of the new investment regime soon after President Bouteflika lambasted foreign companies in July 2008 for repatriating large profits made in Algeria without reinvesting in the country (ref B). "He should have acted sooner," Hamiani publicly commented at the time of Bouteflika's calls to restrict foreign investment in Algeria. The FCE, which includes a number of retired generals and senior government officials, has also endorsed Bouteflika for his bid to win a third term as president.

¶5. (C) Hamiani told us that firms from India, Egypt, Syria and Tunisia were allowed to take advantage of Algerian resources and markets for years while not only excluding Algerians from markets in those countries, but blocking

Algerian businesses from market-share in Algeria. He also said that a lack of new technology and management skills has left Algerian firms uncompetitive in key sectors such as construction, allowing foreign firms to dominate. Former ambassador and coffee marketer Ali Boukhari added that the new investment rules were simply a form of "reciprocity," leveling the playing field with businesses from the region, and ensuring that Algerian firms have stakes in their own markets.

HOW ALGERIANS SEE THEIR COUNTRY

¶6. (C) Samy Boukaila, an aluminum window manufacturer and vice president of the upstart business association Club CARE, surprised us on March 14 with a ringing endorsement of the prime minister's investment rules. A relatively young entrepreneur educated in Britain and generally forward-thinking on business topics, Boukaila was adamant that Algeria had allowed foreigners to take advantage of the country's markets without exacting a fair stake in profitable investments here.

¶7. (C) As an example, he told us that in late 2008 he had been negotiating with an Emirati window firm interested in entering the Algerian market through a joint venture with Boukaila's company. Boukaila said he balked at the Emiratis' offer of a 70/30 split in their favor. He told us that while the Emiratis would have brought to the table new technology and business know-how, Boukaila would have provided access to his country and its markets, natural resources and infrastructure, connection to his well-established contacts, and his understanding of how to get things done in Algeria. Boukaila asserted that foreign companies continue to recognize Algeria as a good market and a good place to invest their money, particularly as the global recession shrinks opportunities elsewhere. He said that he insisted on at least a 50/50 partnership with the Emiratis (before Ouyahia's majority-Algerian rules were announced), but admitted that the deal ultimately fell through.

¶8. (C) Many of Boukaila's arguments defending the new investment rules sound similar to the import substitution

theories employed in Algeria in the 1970s. Both Boukaila and Hamiani pointed to huge outflows of currency from Algeria in the form of payments for imported goods and services and the repatriation of profits gained from investments here as evidence that the economic liberalization of recent years has failed to diversify the Algerian economy or to build small and medium-sized enterprises (SME). It is only fair, Boukaila reasoned, that Algerian firms be given the chance to take a share in new enterprises, so that they may learn new strategies and techniques from their foreign partners and gain access to new technologies.

NEW TWIST: USE THE STOCK MARKET

¶9. (C) Boukaila nonetheless recognized the challenge that foreign investors might face in finding Algerian partners. He noted an idea floated during the early days of the presidential campaign that calls for the government to establish an investment fund to aid Algerian SMEs in their efforts to present themselves as viable investment partners for foreign firms. Instead, Boukaila's group will recommend in a memorandum to the president that the government require foreign firms to list their Algerian investment vehicles on the nascent Algerian stock exchange, which currently lists only three companies. According to Boukaila, this would give foreign investors confidence that they could maintain control of their projects by retaining the single greatest share of the venture, and it would allow not only wealthy Algerians and established businesses to invest in new projects, but also smaller institutions and working-class individuals. Using the stock market as a means of financing an Algerian majority stake in foreign investments was also mentioned in passing in a recent newspaper interview featuring the Minister of Industry and Investment Promotion (septel).

COMMENT

¶10. (C) Perhaps it should come as no surprise that Algeria's top business leaders support the Ouyahia investment rules limiting foreign investors to a minority stake in new investment projects in Algeria since, as established and experienced operators, they would likely be the first beneficiaries of the requirement that foreign investors find Algerian partners. This is particularly true of the FCE, whose membership includes many former military officers and retired high-level ministry officials, as well as current heads of public corporations. What is surprising is the fervor with which younger, often foreign-educated entrepreneurs like Boukaila support the rules. They see no inconsistency between their promotion of protectionist policies they call "economic patriotism" (ref C) and the modern economic theories they otherwise espouse when describing the need for public sector reform. Algerian professionals are struggling to reconcile their view of themselves as modernists who have survived a dark decade of violence with their fear that their country's recent history has left them economically uncompetitive and in need of government protection. We hear more frequently from both businesspeople and government officials that regardless of its hydrocarbons profits, Algeria is still a poor, developing country. How the government interprets this view of Algeria and projects it after the April 9 presidential election will dictate the scope of implementation of Ouyahia's investment rules and overall economic strategy in 2009. The scope of the global recession, in contrast, will dictate whether foreign investors share Boukaila's confidence in Algeria as an emerging market despite the protectionist measures being implemented.
PEARCE